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DECEMBER 31 — A FOOLISH FETISH

By JOHN M. STOY, C.P.A.

Mr. Stoy, a partner of the firm of Stoy, Malone & Company, a District of Columbia firm of Certified Public Accountants, is a member of the Council of the American Institute of Accountants representing the District of Columbia and is a past president of the District of Columbia Institute of CPA's. We are pleased to present his provocative article on December 31st closings.

The accounting profession for many years has been half-heartedly attacking the *habit* of business enterprises closing their fiscal years concurrently with the close of the calendar year. Presumably, the habit originated in antiquity with the Chinese who historically have believed that with the end of the year all debts should be paid and the slate wiped clean for the beginning of the new year. If the mores of our economy could be geared to this very laudable intent, we would be entirely reconciled to the acceptance of December 31st closings. However, since it appears that under our present economic system this goal will not be attained, the importance of calendar year closings diminishes and should indeed be placed in our business past along with single entry, bills in bar, and other outmoded business practices.

Generally, the business community is inclined toward conservatism and hesitates to break away from those practices which, because of usage, have been considered to be sound. Alexander Popes's admonition in his "Essay on Criticism", "Be not the first by whom the new are tried, nor yet the last to lay the old aside," can certainly apply here.

Some of our confreres in the accounting profession evolved the idea of attempting to convince clients of the advisability of abandoning December 31st closings on the theory that business should be measured by years based on a "natural business year," and indeed this is sound where applicable. Many business enterprises, however, have no "natural business year", per se. Many enterprises whose "natural business year" seems to be the calendar year will find upon examination that assets are as nearly in liquid form at October 31, November 30, January 31, February 28, or the end of some other month, as they are at December 31st. We feel, therefore, that the "natural business year" in many instances is a myth and in those cases any attempt to have business management accept this reason for changing its year will meet and has met with failure.

We do not mean here to deprecate the effort nor minimize the importance of what has been done relative to the "natural business year", but we do believe that it is time to lay our cards on the table face up. One of the underlying reasons for our interest in this matter is an attempt to level off the accountants' workload. In the past we have been somewhat hesitant to mention this reason to our clients, perhaps because we have felt that our motive has been more selfish than altruistic. We do not believe that this is true. The auditing of a business entity with the usual attendant determination of income tax liability is an undertaking which requires our best efforts and our soundest thinking. In spite of what has been written about us, accountants are basically human and we must admit that when our staffs have been under the strain of attempting to meet many statement and tax deadlines, all falling on approximately the same date, and have been burning the candle in the middle as well as at both ends, we are not always capable of giving our best efforts to every client. Our value to our clients must be based on service and each business entity which we serve has the right to demand our best efforts. The business community has the right to expect of us that statements prepared for their information have been prepared when we are at our best. Our desire then to eliminate the peaks and valleys is not selfish. We are indeed not rendering our greatest service when they occur.

It has been said above that our profession has taken a half-hearted attitude toward the question. Admittedly the accountant has taken the initiative in suggesting that a change in fiscal year be made, but he has been placed on the defensive by management's question, "Why?" He seemingly finds himself in the untenable position of attacking that which is sacred. Our psychological approach has been entirely wrong. What course of action then should be taken? Management should be placed on the defensive by being asked the question, "Why do you use the calendar year as your fiscal year?" Implicit in the question is the indication that a wrong procedure is being followed, and management then must justify its position. It will be refreshing to hear the attempts at justification. Generally, the reasons can be summed up into one basic reason—*habit*. When management suddenly realizes that this is the primary and many times the only reason for a December 31st closing, our battle is nearly won for there are so many valid reasons on our side.

Fully recognizing the fact that a "natural business year" closing is always to be desired, but turning our thoughts to those cases where there is really no "natural business year", the reasons for a change which should be pointed out are:

1. Distribution of the workload within the client's own organization. During the month of January the filing is required of Federal and local government reports, such as social security and withholding tax information, unemployment tax reports, and others too numerous to mention.
2. The taking of inventory. Though the total merchandise on hand may be slightly lower at December 31st than at any other time, the taking of inventory always appears more burdensome, and we believe is probably less accurate, immediately after the holidays. This is particularly true in some sections of the country where a portion of the inventory is outside, such as in a lumber yard, and must be taken in the dead of winter. The pricing and computation of inventory, which is at best an onerous task, must be done at a time when personnel is already overburdened.
3. In partnerships particularly, other than December 31st closings bring certain tax advantages in that they enable the individual partners to ascertain their income from the partnership prior to the closing of the individual taxable year and, therefore, to gauge the extent to which charitable contributions and other cash disbursements should be made. A word of caution is in order in regard to this reason. The Internal Revenue service has almost invariably refused permission for a change in partnership years unless all the partners also change their taxable years. This reason, however, is very valid in the original establishment of the partnership year.
4. Declaration and payment of dividends in a closely held corporation can be studied much more objectively.

There are other reasons which may be used, including the seemingly irresistible desire of management to go to Florida, California, or even just fishing right after January 1st.

The Commissioner of Internal Revenue, by a recent ruling, has in effect recognized that there is nothing sacrosanct about December 31st and has made it easier to change accounting periods. Our experience indicates that when a positive attempt is made to convince management that there is little advantage and much disadvantage in December 31st closings, it generally has been willing to make the change.

Mention should also be made here that a change of individual taxable years is possible and advantageous in those cases where the taxpayer has income from many sources and the final determination thereof presents a time-consuming problem.

We in the accounting profession must recognize our limitations. As public accounting becomes more and more self-regulated and auditing procedures become more standardized, and as the demand for our time and talents increases, we must refuse to accept conditions which make it impossible, because of time limitations, for us to render our greatest service.

NEW AWSCPA MEMBERS

Elizabeth M. Beatty, 314 West Lomita, Glendale 4, California. Employed by Price Waterhouse & Co. Member of National Association of Cost Accountants. Studied at U. C. L. A.

Mary Louise Foust, Shelbyville, Kentucky. Self-employed. Member: Kentucky Society of CPA's, Kentucky Bar Association, National Association of Women Lawyers, Business and Professional Women, Louisville Chapter ASWA. Studied at Georgetown College, University of Louisville, Jefferson School of Law, University of California.

Patricia Inman, 3804 Dunlevy Street, Apt. 5, Houston, Texas. Employed by Main and Company. Member: Texas Society of CPA's, Houston Chapter ASWA. Studied at Rice Institute and University of Houston.

Betty Jo James, 1000 Winburn Drive, East Point, Georgia. Employed by Sterling and Sterling. Member of Georgia Society of CPA's. Studied at University of Georgia.

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